



CAFII Draft Report

Comparison of the Customer Value Proposition of Creditor's Group Insurance on Mortgages with Individual Insurance Products

A report to the Canadian Association of Financial Institutions in Insurance ("CAFII")

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TOWERS WATSON 

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1. Introduction

1. Introduction

1.1 Reliances and Limitations

- This draft report is intended for discussion purposes only, and should not be distributed to third parties without Towers Watson's express written consent. We will issue a final report which will replace this draft
- The document has been prepared in conformity with its intended use by persons technically competent in the areas addressed and for the stated purposes only. Judgments as to the information contained in the report should be made only after studying the document in its entirety. Furthermore, members of Towers Watson's staff are available to explain and/or amplify any matters presented herein and it is assumed that the user of this report will seek such explanation and/or amplification as to any matter in question
- Towers Watson did not independently verify the data and information provided by the survey participants, but, when practical, we reviewed it for reasonableness and consistency with our knowledge of the insurance industry
- All individual survey responses are kept strictly confidential. Results are published in aggregate form only

1. Introduction (continued)

1.2 Background and Scope

- The Canadian Association of Financial Institutions in Insurance (“CAFII”) is a not-for-profit association dedicated to the development of an open and flexible insurance marketplace. CAFII members are involved in all major lines of the insurance business and they provide insurance through call centres, agents and brokers, travel agents, direct mail, branches of deposit taking institutions and the Internet. CAFII members offer a variety of insurance products including Travel, Life, Health, Property and Casualty and Creditor’s group insurance
- In accordance with a letter dated April 23, 2014, CAFII engaged Towers Watson (“we”, “us”) to conduct an independent study to compare the customer value proposition of Creditor’s group insurance on mortgages (or “Creditor Insurance”) with Individual Insurance products. The study covered Life, critical illness (“CI”) and disability (“DI”) insurance products
- This report provides a summary of the study results and our key findings

2. Approach

2. Approach

The customer value proposition analysis was based on data collected from surveys of CAFII members and individual insurers, and from industry sources

Collect information on Creditor Insurance

- From a survey conducted during the summer of 2014
- From industry sources:
 - Canadian Mortgage and Housing Corporation (“CMHC”)
 - CAFII members’ websites

Collect information on Individual Insurance

- From a survey conducted during the fall of 2014
- From industry sources:
 - LifeGuide by CompuOffice Software Inc.
 - Individual Insurers’ websites
- Target Individual Insurance products most comparable to Creditor Insurance products:
 - Life and CI: 20 Year Term Renewable & Convertible* (“T20R&C”) and 10 Year Term Renewable & Convertible (“T10R&C”)
 - DI: Accident & Sickness - 24 or 36 months benefit period

* Renewable: A type of term life insurance that can be renewed at the end of the term, without evidence of insurability. When the insurance renews, the premium rate increases

Convertible: A right that a policyholder has to exchange their Term policy for a Permanent insurance policy , without giving proof of good health

2. Approach (continued)

Surveys

- Two separate surveys, one tailored to Creditor Insurance companies and the other tailored to Individual Life Insurance companies, included questions concerning the product features, application process, and claims management of Life, Critical Illness and Disability Income insurance products
- CAFII member survey was completed online by all 7 CAFII members* offering Creditor Insurance products
- Individual insurer survey was sent to 24 insurance companies and was completed online by 13 companies* offering Individual Insurance products
- TW reviewed all data submissions for completeness. Additional data was requested from the participants where necessary to resolve incongruities
- The survey focused on 21 key customer profiles (see next slide)

* See Appendix A for list of participants

2. Approach (continued)

Customer profiles selection

- The analysis focused on key customer profiles representing Creditor Insurance consumers
- Creditor Insurance (as defined in this report) is associated with the purchase of a mortgage
- Based on a Statistics Canada Article on “The distribution of mortgage debt in Canada” (published in 2011), the overall mean value of dwellings* was \$303,700. The average value of a home varied across areas of residence and regions; the lowest value was \$170,100 in the Atlantic region and the highest value was \$458,900 in British Columbia
- In discussion with CAFII, it was agreed that mortgage consumers were likely to be the younger generation workforce; age 25 & 35 were chosen as representative and age 50 was added for completeness of this study

* Mean value of dwelling is the mean of current market prices of dwellings as reported by home-owning households in the 2008 Survey of Household Spending

2. Approach (continued)

- The following key customer profiles were selected

| Key Customer Profiles | |
|-----------------------|---|
| Profile | Detail |
| Issue Age | 25, 35, 50 |
| Gender | Male, Female |
| Coverage Type | Single, Joint (Male Age 35 and Female Age 32) |
| Issued Amount | Sum Insured/mortgage origination amount (Life and CI): <ul style="list-style-type: none">• \$100,000• \$250,000• \$500,000 Monthly Insured Mortgage Payment (DI): <ul style="list-style-type: none">• \$600• \$1,500• \$3,000 |

2. Approach (continued)

Customer value proposition analysis

- Compiled and analyzed the results obtained from surveys data and industry sources
- CAFII member survey provided insight on the Creditor Insurance market
 - The statistics were compiled based on information provided for the in force as of fiscal year-end 2013 and new mortgage issued (“new business”) during the fiscal year 2013
- Comparison of main product features, average premium rates as well as application and claims approval process for Creditor Insurance and Individual Insurance, when available
 - The product features and premium rates were those available for a new application at time of the data collection (Summer of 2014)
 - The statistics on the application and claims process were compiled based on applications received and claims submitted during 2013

3. Creditor Insurance Market

3. Creditor Insurance Market

- As of year-end 2013, CAFII members had a total number of 4.6 million mortgages for a total in-force mortgage origination amount of approximately \$930 billion
- The average size of all in-force mortgages was \$202,000
- Based on mortgage origination amount, 35% of those mortgages were insured with at least one Creditor Insurance product (Life, CI or DI)
- The average size of the insured mortgages (\$153,000) was lower than the uninsured mortgages (\$242,000)

In-Force Creditor Insurance Market – Year-End 2013

| In-Force Mortgages | Number of Mortgages (million) | Mortgage Origination Amount (\$ billion) | Average Mortgage Size (\$) |
|--------------------|-------------------------------|--|----------------------------|
| Insured | 2.1 | 322 | 153,000 |
| Not insured | 2.5 | 608 | 242,000 |
| Total | 4.6 | 930 | 202,000 |

3. Creditor Insurance Market (continued)

- The new mortgages issued during 2013 accounted for approximately 20% of the in-force mortgages
- Based on mortgage origination amount, 27% of those new mortgages were insured with at least one Creditor Insurance product
- The average size of all new mortgages (\$230,000) was higher than that of all in-force mortgages (\$202,000), reflecting the rising market value of dwellings in recent years
- For new mortgages, the average size of the insured and uninsured mortgages was \$222,000 and \$236,000 respectively, again showing that insured mortgages are on average smaller than uninsured mortgages

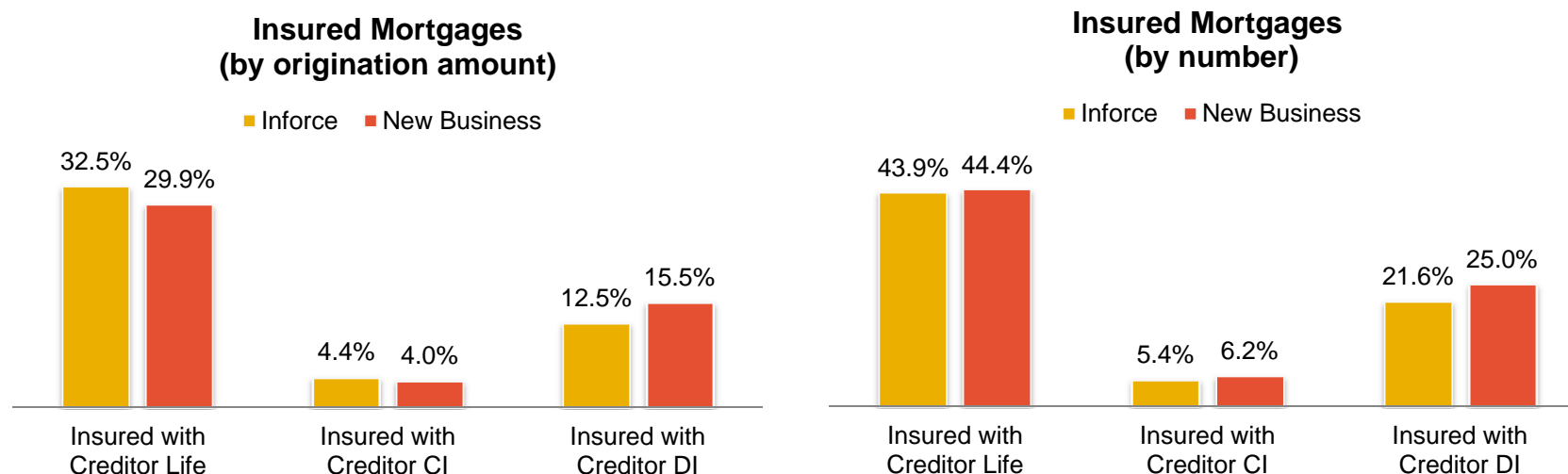
New Creditor Insurance Market – Issued in 2013

| New Mortgages | Number of Mortgages (thousand) | Mortgage Origination Amount (\$ billion) | Average Mortgage Size (\$) |
|---------------|--------------------------------|--|----------------------------|
| Insured | 385 | 85 | 222,000 |
| Not insured | 485 | 114 | 236,000 |
| Total | 870 | 200 | 230,000 |

3. Creditor Insurance Market (continued)

- Age-eligibility is based on consumer age at the time of mortgage or insurance application; CI has lower maximum age-eligibility
- It was assumed that all mortgages eligible for Creditor Life insurance were also eligible for CI and DI insurance (defined as “eligible for insurance”)
- Based on origination amount, approximately 30% of the eligible mortgages are insured with Creditor Life insurance, about 15% are insured with Creditor DI insurance and less than 5% are insured with Creditor CI
- The percentage of insured mortgages by number is higher than by amount, reflecting the fact that smaller mortgages tend to be more insured than larger ones

Percentage of Mortgages Insured with Each Creditor Insurance Product for In-Force Mortgages as of Year-End 2013 and New Mortgages Issued in 2013



4. Individual Insurance Market

4. Individual Insurance Market

According to the Canadian Life and Health Insurance Association,

- By year-end 2013, the in-force Individual Life insurance for Term and Permanent insurance combined was \$2,370 billion. Of the total amount in force, 58% (\$1,375 billion) was Term and 42% (\$995 billion) was Permanent
- During 2013, Canadians purchased \$222 billion of Individual Life Insurance. More than 60% of the new face amount was some form of Term policies. Because of their relatively large size, Term accounted for more than 75% of the total amount of Individual Life Insurance (approximately \$166 billion)
- The average insured amount for new issued Individual Life Insurance (Term and Permanent in total) was \$309,400
- There is no comparable statistics for the Individual CI and DI market

4. Individual Insurance Market (continued)

Based on the Individual Insurance Survey Responses,

- As of year-end 2013, Individual Insurers who participated in the survey had approximately 1.3 million policies for Term Life, CI and DI products combined
- Based on the Term Life face amount, the Individual Insurers who participated in the survey represent approximately 27% of the in-force Individual Insurance Market

In-Force Individual Insurance Market (survey participants) – Year-End 2013

| In-Force | Number of Policies (thousands) | Insured Amount (\$ billion) | Average Insured Amount (\$) |
|----------------------|-----------------------------------|--------------------------------|--------------------------------|
| Individual Life Term | 970 | 375 | 387,400 |
| Individual CI | 88 | 5 | 57,400 |
| Individual DI | 276 | 1 | 4,700 |

4. Individual Insurance Market (continued)

Based on the Individual Insurance Survey Responses,

- Based on the Term Life face amount, the Individual Insurers who participated in the survey represent approximately 38% of the 2013 new business
- For Individual Life and CI products, the average insured amount of new policies issued by the Individual Insurer Survey participants during 2013 was higher than that of in-force policies
- For Individual DI, the average insured amount of new business was similar to that of in-force policies

New Individual Insurance Market (survey participants) – Issued in 2013

| New | Number of Policies (thousands) | Insured Amount (\$ billion) | Average Insured Amount (\$) |
|----------------------|-----------------------------------|--------------------------------|--------------------------------|
| Individual Life Term | 151 | 63 | 417,900 |
| Individual CI | 17 | 1 | 71,200 |
| Individual DI | 16 | Less than 1 | 4,500 |

4. Individual Insurance Market (continued)

Comparing the average insured amount of the Individual Insurance survey participants to the Creditor Insurance market,

- The average insured amount for Individual Life products is significantly higher than the average insured mortgage origination amount for Creditor products, both in-force and new business
- For CI, the average Creditor amount is higher
- Data was not available to compare the DI average coverage

In-Force and New Business Average Insured Amount

| | Individual Life Term (Average Insured Amount \$) | Individual CI (Average Insured Amount \$) | Creditor (Average Insured Mortgage Origination Amount \$) |
|---------------------------------|---|--|--|
| In-Force as of YE2013 | 387,400 | 57,400 | 153,000 |
| New Business during 2013 | 417,900 | 71,200 | 222,000 |

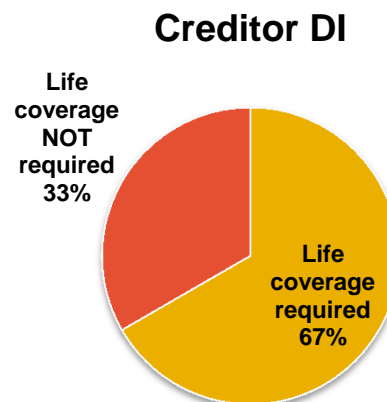
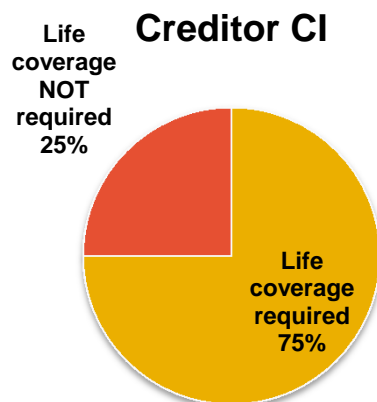
5. Key Findings

5.1 Key Findings – Eligibility

5.1 Key Findings – Eligibility

- In terms of product offering, 100% of the CAFII members that participated in the survey offer Creditor Life insurance, 86% offer Creditor DI and only 57% offer Creditor CI
- More than 65% of the participating CAFII members who offer Creditor CI or DI require the purchase of Life Insurance coverage as a pre-requisite
- In comparison, among the Individual Insurers offering Term Life Insurance, 32% offer DI and 86% offer CI. The majority of the CI and DI products are offered on a stand-alone basis

Creditor Life Coverage Required to Obtain Creditor CI or DI



5.1 Key Findings – Eligibility (continued)

- For the majority of participating CAFII members, the minimum age for an applicant to be eligible to apply for Creditor Insurance is 18
- The maximum age to be eligible for coverage ranges from 64-70 for Creditor Life and 64-65 for Creditor DI. For Creditor CI, the maximum age is lower, in the range of 55 to 64

**Maximum Eligible Age Range to Apply for Coverage
Percentage of CAFII Members**

| Maximum Eligible Age Range to Apply | Creditor CI | Creditor DI |
|-------------------------------------|-------------|-------------|
| 55-60 | 50% | 0% |
| 61-65 | 50% | 100% |
| 66-70 | 0% | 0% |

- The minimum and maximum ages for eligibility for Creditor Insurance are similar to Individual Insurance
- For DI products, 86% of the participating CAFII members and 78% of the individual insurers have working condition requirements for applicants to be eligible to apply for the coverage

5.2 Key Findings – Application & Underwriting Process

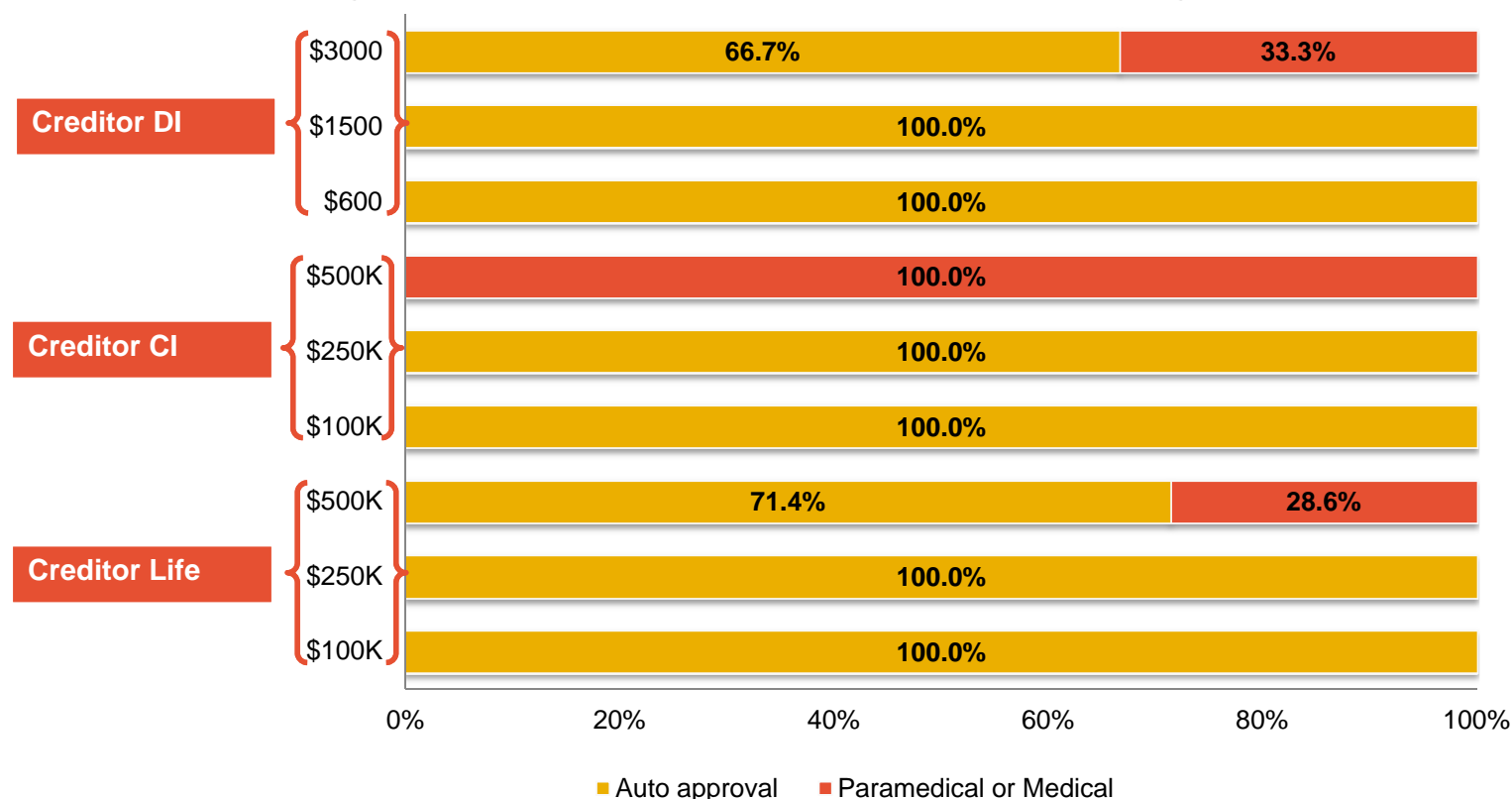
5.2 Key Findings – Application & Underwriting Process

- In this section, the following definitions are used:
 - **Guaranteed Issue:** Automatic approval without any health question(s)
 - **Auto approval (or Simple Issue):** The application is automatically approved if the applicant answered “no” to all the simple health questions
 - **Paramedical Underwriting:** Long health questionnaire, blood pressure, urine specimen
 - **Medical Underwriting:** Paramedical & blood testing, ECG, etc.
- The next two slides show the minimum underwriting requirements to approve an application
 - For each Creditor Insurance and each Individual Insurance product (Life, CI or DI)
 - By insured amount

5.2 Key Findings – Application & Underwriting Process (continued)

- For all three Creditor Insurance products, Paramedical/ Medical underwriting is only required for high insured amounts, i.e. Creditor Life or CI insured amount \$500,000 or Creditor DI monthly payment \$3,000

Minimum Underwriting Requirements by Insured Amount* - Percentage of CAFII Members

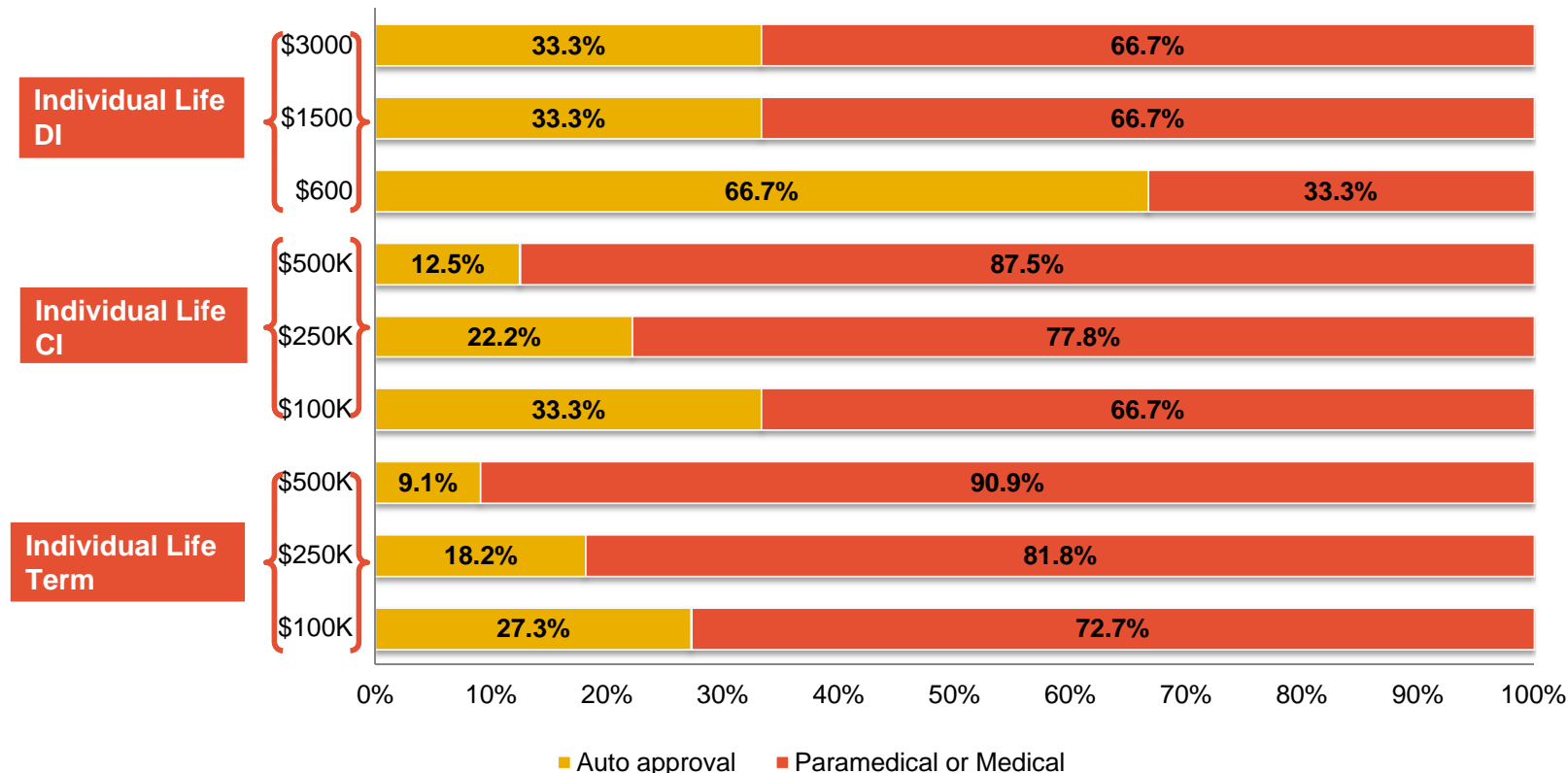


* Guaranteed issue does not apply to the key profiles

5.2 Key Findings – Application & Underwriting Process (continued)

- In comparison, individual insurers have higher underwriting requirements. For Individual Life and CI, more than 66% of the individual insurer participants respond that Paramedical or Medical underwriting is required even for insured amount of \$100,000

Minimum Underwriting Requirements by Insured Amount* - Percentage of Individual Insurers

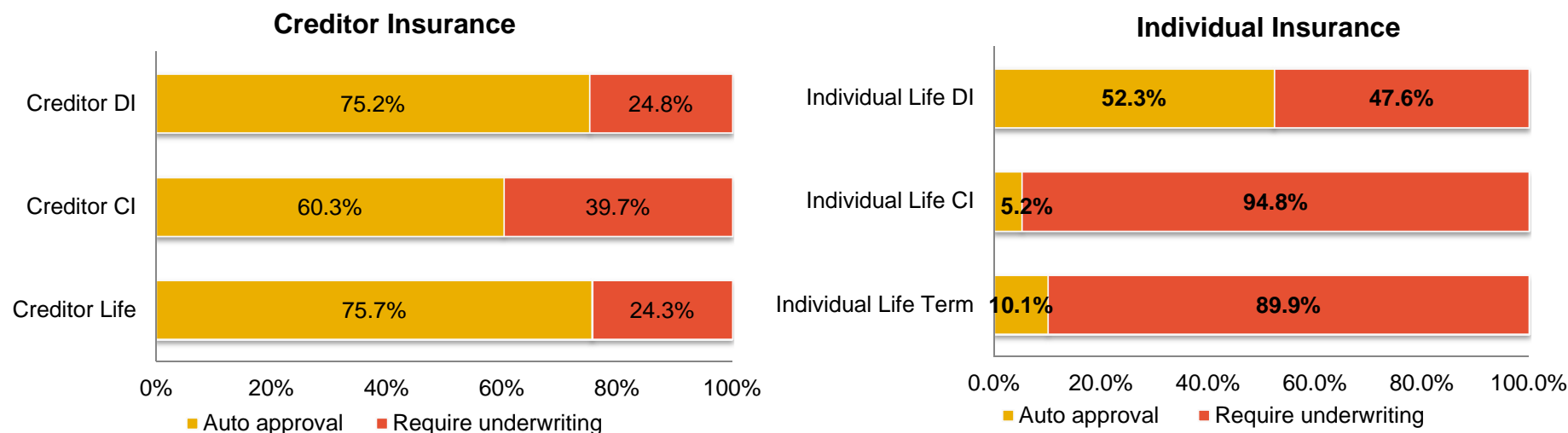


* Guaranteed issue does not apply to these profiles

5.2 Key Findings – Application & Underwriting Process (continued)

- For Creditor Insurance applications received during 2013, more than 60% were auto-approved (or simple issued) and did not require further underwriting (Paramedical or Medical)
- For Individual Insurance, the percentage of applications auto-approved (simple issue) was significantly lower, particularly for Life and CI (10.1% for Life and 5.2% for CI). For DI, 52.3% were auto-approved compared to 75.2% for Creditor Insurance
- Applications for Creditor Insurance are more likely to be auto-approved and consumers don't have to go through the more complex and time-consuming underwriting process

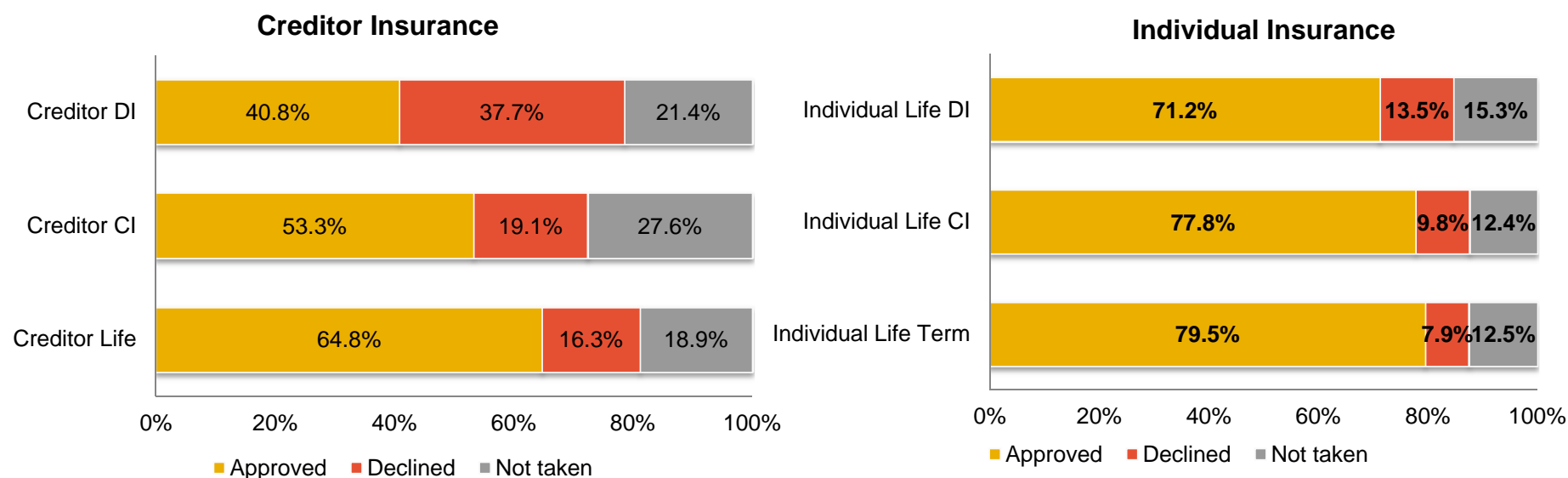
2013 Applications – Percentage by Underwriting Level



5.2 Key Findings – Application & Underwriting Process (continued)

- When Paramedical or Medical underwriting is required, the approval rate in 2013 for Creditor Insurance was 40 - 65%, compared to 70 - 80 % for Individual Insurance
- The declined rate for Creditor Insurance is significantly higher than for Individual Insurance

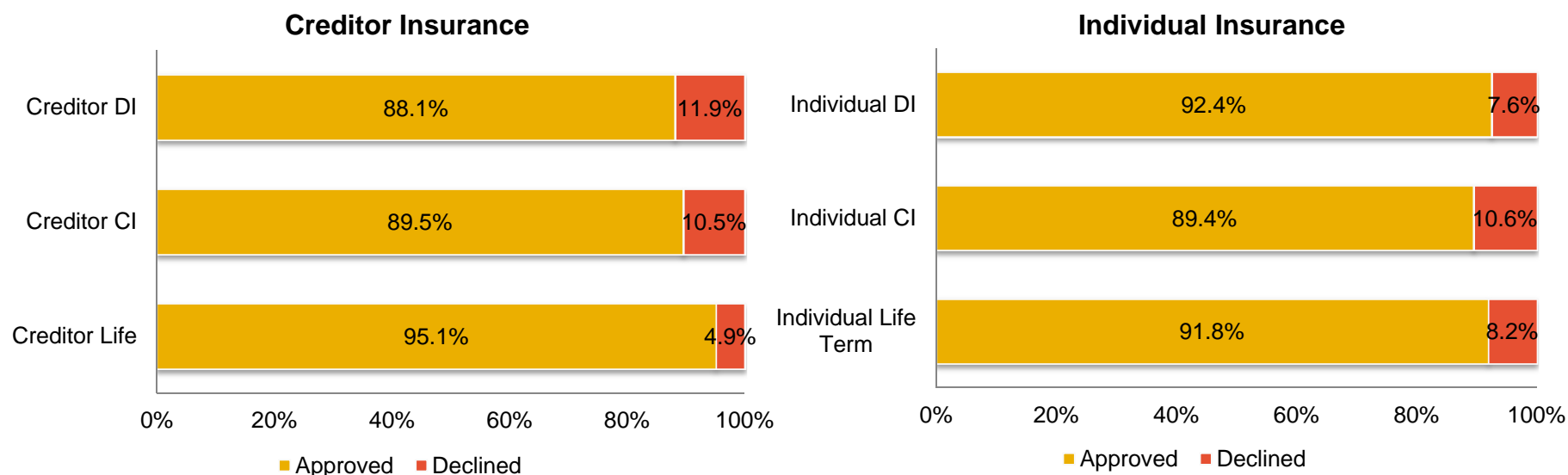
2013 Applications with Paramedical or Medical Underwriting – Approval Rate (by number)



5.2 Key Findings – Application & Underwriting Process (continued)

- When looking at all the applications received in 2013, the proportion that were approved for Creditor Insurance and Individual Insurance (either auto-approved or after Paramedical/Medical underwriting) was very similar for DI and CI
- For Life insurance, the approval rate was higher (95.1%) for Creditor Insurance relative to Individual Insurance (91.8%)

2013 Applications by Number– Total Approval Rate



5.2 Key Findings – Application & Underwriting Process (continued)

- Based on the survey responses, Creditor Insurance products offer standard rates only and do not accept extra premium on substandard lives; Individual Insurers offer coverage to substandard lives with extra premium
- The average maximum mortality/morbidity rating without extra premium is slightly higher for Creditor Life and CI products compared to Individual Life and CI products
- For Individual DI, there are typically no extra premium and premium rates vary by occupational class

Comparison of Average Maximum Mortality/Morbidity Rating

| | Maximum Rating without Extra Premium | | Maximum Rating with Extra Premium | |
|----------------|--------------------------------------|------------|-----------------------------------|------------|
| | Creditor | Individual | Creditor | Individual |
| Life Insurance | 186% | 175% | Not applicable | 364% |
| CI Insurance | 162% | 150% | Not applicable | 231% |

5.3 Key Findings – Product Features

5.3 Key Findings – Comparison of General Product Features

The following is a comparison of product features where there is significant difference between Creditor Insurance and Individual Insurance. See Appendix B for a full list of product features

| | Creditor Insurance | Individual Insurance |
|----------------------------------|--|---|
| Premium Rate Guarantee | <ul style="list-style-type: none">• The insurance premium rates are subject to change and not guaranteed for all three products | <ul style="list-style-type: none">• Premium rates are guaranteed for the Life and CI insurance contracts• DI premium rates are subject to change |
| Cancellation (by insurer) | <ul style="list-style-type: none">• Group policy• More than 83% of the participating CAFII members can cancel coverage* | <ul style="list-style-type: none">• Life and CI insurance coverages are non-cancellable• Some DI products may be cancelled by the insurer |
| Benefit | <ul style="list-style-type: none">• The benefit is the outstanding balance of the mortgage for Life or CI products• The benefit is the principal and interest portions of the mortgage payments plus the insurance premium, for DI products | <ul style="list-style-type: none">• The individual insurance benefit is level and set at issue |

* None of the CAFII members have cancelled the coverage in the past few years

5.3 Key Findings – Comparison of Life Product Features (continued)

| | Creditor Life Insurance | Individual Life Insurance |
|------------------------------|--|--|
| Premium by Risk Class | <ul style="list-style-type: none"> Premium rates are not gender or smoking status distinct (only one CAFII member has gender distinct premium rates) Generally, premium rates do not vary by insured amount No policy fee | <ul style="list-style-type: none"> Premium rates vary by gender, smoking status and underwriting risk class* Preferred underwriting** is offered for higher insured amounts With policy fee |
| Convertibility | <ul style="list-style-type: none"> Not applicable | <ul style="list-style-type: none"> Can be converted to Permanent Life Insurance products up to age 65-70 |
| Joint Coverage | <ul style="list-style-type: none"> Available, some products have restriction of maximum of 2 people in one policy Premium discount on joint coverage | <ul style="list-style-type: none"> Available, number of individuals allowed in a policy is generally more than 2 Premium discount |
| Additional Benefits | <ul style="list-style-type: none"> Limited number of products offer additional benefits such as Job Loss and Accidental Death Benefit | <ul style="list-style-type: none"> Other benefit coverages, i.e. Waiver of Premium, Accidental Death Benefit, Child Rider are commonly offered at extra cost |

* Underwriting risk class: a group of individuals that have similar characteristics which is used to determine the risk associated with underwriting a new policy and the premium that should be charged for coverage

** Preferred underwriting: Individuals in the preferred group have lower rates

5.3 Key Findings – Comparison of CI Product Features

| | Creditor CI Insurance | Individual CI Insurance |
|----------------------------|---|--|
| Illness Covered | <ul style="list-style-type: none"> • 3 to 4 illnesses* | <ul style="list-style-type: none"> • Majority of products cover more than 20 illnesses |
| Survival Period | <ul style="list-style-type: none"> • For most of the CI products, there is no minimum survival period after diagnosis for a valid critical illness claim | <ul style="list-style-type: none"> • 80% of the products require a 30-day elimination period on Individual CI insurance |
| Additional Benefits | <ul style="list-style-type: none"> • Majority of the CI products do not offer additional benefits | <ul style="list-style-type: none"> • Additional benefits such as early detection benefit and best doctor services are commonly included in the CI products (no additional cost) while return of premium is available for purchase |

* The three illnesses commonly covered by Creditor CI Insurance products are: cancer, heart attack and stroke. According to the Munich Re Individual Insurance Survey based on individual policy claims paid in Canada until the end of 2009, cancer, heart attack and stroke are the most common types of illnesses for which benefits are paid under Individual CI policies. These 3 illnesses account for 86% of paid claims

5.3 Key Findings – Comparison of DI Product Features

| | Creditor DI Insurance | Individual DI Insurance |
|---------------------------------|--|--|
| Benefit Payment Period | <ul style="list-style-type: none"> 83% of the companies offer benefit payments up to 24 months | <ul style="list-style-type: none"> 24 months, 60 months and coverage to age 65 or 70 are generally offered by individual insurers |
| Definition of disability | <ul style="list-style-type: none"> Own Occupation | <ul style="list-style-type: none"> Own Occupation for the first 24 months. After 24 months, definition changes to Any Occupation |
| Waiting Period | <ul style="list-style-type: none"> 60 days waiting period is offered by all products except one which has waiting period of 30 days | <ul style="list-style-type: none"> Most companies provide various waiting period options, i.e. 14, 30, 60, 90, 120. Waiting period has to be elected at time of issue |

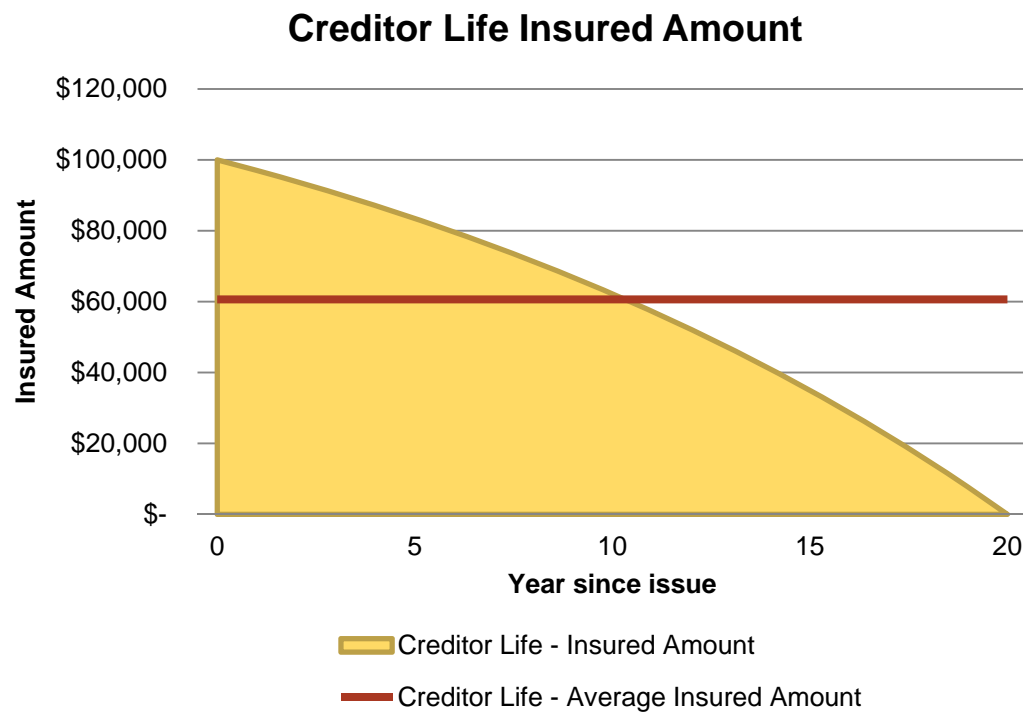
5.4 Key Findings – Premium Rates

5.4 Key Findings – Life Premium Rates

- The average mortgage amortization period is about 20 years:
 - Creditor Life Insurance premium rates were compared to Individual Life T20R&C premium rates (standard risk class)
 - Creditor Life Insurance premium rates were also compared to Individual Life T10R&C using average premium rates over 20 years, assuming one renewal
 - Premium rates for Individual Life were expressed as a percentage of Creditor Life premium rates
 - The rate comparison and averages were done ignoring the difference in benefits paid; Creditor Insurance coverage is decreasing relative to a level coverage for Individual Insurance
 - The adjusted average rate comparison took into account the difference in coverage

5.4 Key Findings – Life Premium Rates (continued)

- The chart below illustrates the Creditor Life insured amount assuming:
 - Original mortgage amount = \$100,000
 - Interest Rate = 5%
 - Amortization period = 20 years with monthly payments
- The average insured amount over 20 years under Creditor Life is \$61,000



5.4 Key Findings – Life Premium Rates (continued)

- Compared to Individual Life T20R&C premiums per \$1,000:
 - For Smokers, Creditor Life premium rates are lower for Males, Females and Joint, on average basis. On adjusted average basis, Creditor Life premium rates are lower for Males only
 - For Non-Smokers, Individual Life premium rates are lower for Males, Females and Joint, on average and adjusted average basis
- Compared to Individual Life T10R&C premiums per \$1,000:
 - For Smokers and Non-Smokers, Creditor Life premium rates are lower for Males, Females and Joint, on average basis
 - On adjusted average basis, Individual Life premium rates are lower for Males, Females and Joint Non-Smokers; Creditor life premiums rates are lower for Smokers
 - In general, the T10R&C initial premium rates (for the first 10 years) are lower than Creditor Life premium rates and T10R&C renewal premium rates are higher than Creditor Life premium rates

5.4 Key Findings – Life Premium Rates (continued)

**Male Premium Rate per \$1,000
Creditor Life vs. Individual Life T20 R&C**

| Age | Insured Amount | Creditor Life | Individual Life (Non-Smoker) As % of Creditor Life | Individual Life (Smoker) As % of Creditor Life |
|-----|----------------|------------------|---|---|
| 25 | \$100K | 0.10 | 125% | 175% |
| | \$250K | 0.09 | 85% | 138% |
| | \$500K | 0.09 | 76% | 127% |
| 35 | \$100K | 0.14 | 103% | 178% |
| | \$250K | 0.13 | 74% | 155% |
| | \$500K | 0.12 | 63% | 149% |
| 50 | \$100K | 0.45 | 87% | 203% |
| | \$250K | 0.38 | 84% | 215% |
| | \$500K | 0.37 | 79% | 206% |
| | | Average | 86% | 172% |
| | | Adjusted Average | 52% | 105% |

Notes:

- Creditor Life: Monthly premium rate per \$1,000 is the average of rates from the participating CAFII member , provided in the survey responses
- Individual Life: Monthly premium rate per \$1,000 is the average of all the products available in the market including policy fee, as extracted from the LifeGuide software

5.4 Key Findings – Life Premium Rates (continued)

**Female Premium Rate per \$1,000
Creditor Life vs. Individual Life T20 R&C**

| Age | Insured Amount | Creditor Life | Individual Life (Non-Smoker) As % of Creditor Life | Individual Life (Smoker) As % of Creditor Life |
|-----|----------------|------------------|---|---|
| 25 | \$100K | 0.10 | 110% | 135% |
| | \$250K | 0.08 | 75% | 102% |
| | \$500K | 0.08 | 59% | 84% |
| 35 | \$100K | 0.13 | 95% | 149% |
| | \$250K | 0.12 | 63% | 126% |
| | \$500K | 0.12 | 49% | 116% |
| 50 | \$100K | 0.42 | 67% | 133% |
| | \$250K | 0.36 | 61% | 127% |
| | \$500K | 0.36 | 53% | 122% |
| | | Average | 70% | 122% |
| | | Adjusted Average | 43% | 74% |

Notes:

- Creditor Life: Monthly premium rate per \$1,000 is the average of participating CAFII member products as provided in the survey responses
- Individual Life: Monthly premium rate per \$1,000 is the average of all the products available in the market including policy fee, as extracted from the LifeGuide software

5.4 Key Findings – Life Premium Rates (continued)

**Joint Life Premium Rate per \$1,000
Creditor Life vs. Individual Life T20 R&C**

| Age | Insured Amount | Creditor Life | Individual Life (Non-Smoker) As % of Creditor Life | Individual Life (Smoker) As % of Creditor Life |
|-----------------------------|----------------|------------------|---|---|
| Male Age 35 & Female Age 32 | \$100K | 0.23 | 86% | 156% |
| | \$250K | 0.21 | 69% | 145% |
| | \$500K | 0.20 | 58% | 139% |
| | | Average | 71% | 147% |
| | | Adjusted Average | 43% | 90% |

Notes:

- Joint: Male Age 35 and Female Age 32
- Creditor Life: Monthly premium rate per \$1,000 is the average of participating CAFII member products as provided in the survey responses
- Individual Life: Monthly premium rate per \$1,000 is the average of all the products available in the market including policy fee, as extracted from the LifeGuide software

5.4 Key Findings – Life Premium Rates (continued)

**Male Premium Rate per \$1,000
Creditor Life vs. Individual Life T10 R&C**

| Age | Insured Amount | Creditor Life | Individual Life (Non-Smoker) As % of Creditor Life | Individual Life (Smoker) As % of Creditor Life |
|-----|----------------|------------------|---|---|
| 25 | \$100K | 0.10 | 162% | 229% |
| | \$250K | 0.09 | 121% | 189% |
| | \$500K | 0.09 | 106% | 179% |
| 35 | \$100K | 0.14 | 173% | 298% |
| | \$250K | 0.13 | 138% | 261% |
| | \$500K | 0.12 | 128% | 259% |
| 50 | \$100K | 0.45 | 160% | 355% |
| | \$250K | 0.38 | 167% | 386% |
| | \$500K | 0.37 | 164% | 387% |
| | | Average | 147% | 282% |
| | | Adjusted Average | 89% | 172% |

Notes:

- Creditor Life: Monthly premium rate per \$1,000 is the average of participating CAFII member products as provided in the survey responses
- Individual Life: Monthly premium rate per \$1,000 is the average of all the products available in the market including policy fee for 20 years, as extracted from the LifeGuide software

5.4 Key Findings – Life Premium Rates (continued)

**Female Premium Rate per \$1,000
Creditor Life vs. Individual Life T10 R&C**

| Age | Insured Amount | Creditor Life | Individual Life (Non-Smoker) As % of Creditor Life | Individual Life (Smoker) As % of Creditor Life |
|-----|----------------|------------------|---|---|
| 25 | \$100K | 0.10 | 130% | 176% |
| | \$250K | 0.08 | 104% | 153% |
| | \$500K | 0.08 | 84% | 135% |
| 35 | \$100K | 0.13 | 144% | 235% |
| | \$250K | 0.12 | 109% | 201% |
| | \$500K | 0.12 | 95% | 190% |
| 50 | \$100K | 0.42 | 122% | 220% |
| | \$250K | 0.36 | 117% | 221% |
| | \$500K | 0.36 | 113% | 219% |
| | | Average | 113% | 194% |
| | | Adjusted Average | 69% | 119% |

Notes:

- Creditor Life: Monthly premium rate per \$1,000 is the average of participating CAFII member products as provided in the survey responses
- Individual Life: Monthly premium rate per \$1,000 is the average of all the products available in the market including policy fee for 20 years, as extracted from the LifeGuide software

5.4 Key Findings – Life Premium Rates (continued)

**Joint Life Premium Rate per \$1,000
Creditor Life vs. Individual Life T10 R&C**

| Age | Insured Amount | Creditor Life | Individual Life (Non-Smoker) As % of Creditor Life | Individual Life (Smoker) As % of Creditor Life |
|-----------------------------|----------------|------------------|---|---|
| Male Age 25 & Female Age 32 | \$100K | 0.23 | 146% | 256% |
| | \$250K | 0.21 | 125% | 244% |
| | \$500K | 0.20 | 119% | 240% |
| | | Average | 130% | 247% |
| | | Adjusted Average | 79% | 150% |

Notes:

- Joint: Male Age 35 and Female Age 32
- Creditor Life: Monthly premium rate per \$1,000 is the average of participating CAFII member products as provided in the survey responses
- Individual Life: Monthly premium rate per \$1,000 is the average of all the products available in the market including policy fee for 20 years, as extracted from the LifeGuide software

5.4 Key Findings – CI Premium Rates

- Creditor CI premium rates were compared to Individual CI T10R&C and T20R&C (standard risk class) for each Key Customer Profile. Joint premium rates were not available from Lifeguide
 - Premium rates for Individual CI are expressed as a percentage of Creditor CI premium rates
- Compared to Individual CI T10R&C and Individual CI T20R&C premiums per \$1,000:
 - For Smokers & Non-Smokers, Males & Females, Creditor CI premium rates are much lower, on average and adjusted average basis
 - According to the Munich Re survey, Individual CI covers more illnesses than the Creditor CI. There are also additional benefits included under Individual CI

5.4 Key Findings – CI Premium Rates (continued)

**Male Premium Rate per \$1,000
Creditor CI vs. Individual CI T20 R&C**

| Age | Insured Amount | Creditor CI | Individual CI (Non-Smoker) As % of Creditor CI | Individual CI (Smoker) As % of Creditor CI |
|-----|----------------|------------------|---|---|
| 25 | \$100K | 0.12 | 224% | 274% |
| | \$250K | 0.12 | 194% | 245% |
| | \$500K | 0.13 | 163% | 208% |
| 35 | \$100K | 0.17 | 238% | 425% |
| | \$250K | 0.17 | 225% | 417% |
| | \$500K | 0.19 | 194% | 365% |
| 50 | \$100K | 0.66 | 200% | 444% |
| | \$250K | 0.63 | 203% | 454% |
| | \$500K | 0.59 | 215% | 483% |
| | | Average | 206% | 368% |
| | | Adjusted Average | 126% | 225% |

Notes:

- Creditor CI: Monthly premium rate per \$1,000 is the average of participating CAFII member products as provided in the survey responses
- Individual CI: Monthly premium rate per \$1,000 is the average of all the products available in the market including policy fee, as extracted from the LifeGuide software

5.4 Key Findings – CI Premium Rates (continued)

**Female Premium Rate per \$1,000
Creditor CI vs. Individual CI T20 R&C**

| Age | Insured Amount | Creditor CI | Individual CI (Non-Smoker) As % of Creditor CI | Individual CI (Smoker) As % of Creditor CI |
|-----|----------------|------------------|---|---|
| 25 | \$100K | 0.12 | 226% | 285% |
| | \$250K | 0.12 | 196% | 256% |
| | \$500K | 0.13 | 165% | 217% |
| 35 | \$100K | 0.17 | 245% | 400% |
| | \$250K | 0.17 | 232% | 393% |
| | \$500K | 0.19 | 200% | 343% |
| 50 | \$100K | 0.66 | 169% | 339% |
| | \$250K | 0.62 | 172% | 354% |
| | \$500K | 0.57 | 185% | 379% |
| | | Average | 199% | 329% |
| | | Adjusted Average | 121% | 201% |

Notes:

- Creditor CI: Monthly premium rate per \$1,000 is the average of participating CAFII member products as provided in the survey responses
- Individual CI: Monthly premium rate per \$1,000 is the average of all the products available in the market including policy fee, as extracted from the LifeGuide software

5.4 Key Findings – CI Premium Rates (continued)

**Male Premium Rate per \$1,000
Creditor CI vs. Individual CI T10 R&C**

| Age | Insured Amount | Creditor CI | Individual CI (Non-Smoker) As % of Creditor CI | Individual CI (Smoker) As % of Creditor CI |
|-----|----------------|------------------|---|---|
| 25 | \$100K | 0.12 | 249% | 351% |
| | \$250K | 0.12 | 221% | 325% |
| | \$500K | 0.13 | 184% | 271% |
| 35 | \$100K | 0.17 | 289% | 550% |
| | \$250K | 0.17 | 276% | 543% |
| | \$500K | 0.19 | 237% | 466% |
| 50 | \$100K | 0.66 | 254% | 583% |
| | \$250K | 0.63 | 258% | 593% |
| | \$500K | 0.59 | 269% | 623% |
| | | Average | 248% | 478% |
| | | Adjusted Average | 152% | 292% |

Notes:

- Creditor CI: Monthly premium rate per \$1,000 is the average of participating CAFII member products as provided in the survey responses
- Individual CI: Monthly premium rate per \$1,000 is the average of all the products available in the market including policy fee for 20 years, as extracted from the LifeGuide software

5.4 Key Findings – CI Premium Rates (continued)

**Female Premium Rate per \$1,000
Creditor CI vs. Individual CI T10 R&C**

| Age | Insured Amount | Creditor CI | Individual CI (Non-Smoker) As % of Creditor CI | Individual CI (Smoker) As % of Creditor CI |
|-----|----------------|------------------|---|---|
| 25 | \$100K | 0.12 | 249% | 330% |
| | \$250K | 0.12 | 220% | 295% |
| | \$500K | 0.13 | 183% | 244% |
| 35 | \$100K | 0.17 | 289% | 485% |
| | \$250K | 0.17 | 276% | 464% |
| | \$500K | 0.19 | 237% | 401% |
| 50 | \$100K | 0.66 | 198% | 396% |
| | \$250K | 0.62 | 202% | 404% |
| | \$500K | 0.57 | 218% | 435% |
| | | Average | 230% | 384% |
| | | Adjusted Average | 140% | 234% |

Notes:

- Creditor CI: Monthly premium rate per \$1,000 is the average of participating CAFII member products as provided in the survey responses
- Individual CI: Monthly premium rate per \$1,000 is the average of all the products available in the market including policy fee for 20 years, as extracted from the LifeGuide software

5.4 Key Findings – DI Premium Rates

- Most Creditor DI products offered by CAFII members have a 60-day waiting period. We used the Individual DI with a 60-day and 30-day waiting period for the premium rate comparison. Rates for occupational class 2A were used in this comparison
 - Creditor DI premium rates were compared to Individual DI premium rates for each Key Customer Profile
 - Neither Creditor insurers nor Individual insurers offer joint DI coverage
 - Premium rates for Individual DI are expressed as a percentage of Creditor DI premium rates
- Compared to Individual DI with a 60-day and 30-day waiting period, premiums per \$1,000:
 - For Smokers and Non-Smokers, Creditor DI premium rates are lower for Males and Females

5.4 Key Findings – DI Premium Rates (continued)

Male Premium Rate per \$1,000
Creditor DI vs. Individual DI (60-Day Waiting Period)

| Age | Monthly Insured Payment | Creditor DI | Individual DI (Non-Smoker) As % of Creditor DI | Individual DI (Smoker) As % of Creditor DI |
|-----|-------------------------|-------------|---|---|
| 25 | \$600 | 14.30 | 152% | 171% |
| | \$1,500 | 14.28 | 135% | 153% |
| | \$3,000 | 14.26 | 128% | 146% |
| 35 | \$600 | 18.70 | 145% | 163% |
| | \$1,500 | 18.65 | 132% | 149% |
| | \$3,000 | 18.62 | 126% | 143% |
| 50 | \$600 | 36.44 | 166% | 187% |
| | \$1,500 | 36.17 | 160% | 181% |
| | \$3,000 | 35.98 | 156% | 176% |
| | | Average | 144% | 163% |

Notes:

- Creditor DI: Monthly premium rate per \$1,000 is the average of participating CAFII member products as provided in the survey responses
- Individual DI: Monthly premium rate per \$1,000 is the average of participating Individual Insurer products as provided in the survey responses

5.4 Key Findings – DI Premium Rates (continued)

Female Premium Rate per \$1,000
Creditor DI vs. Individual DI (60-Day Waiting Period)

| Age | Monthly Insured Payment | Creditor DI | Individual DI (Non-Smoker) As % of Creditor DI | Individual DI (Smoker) As % of Creditor DI |
|-----|-------------------------|-------------|---|---|
| 25 | \$600 | 14.30 | 188% | 205% |
| | \$1,500 | 14.28 | 171% | 196% |
| | \$3,000 | 14.26 | 164% | 188% |
| 35 | \$600 | 18.70 | 183% | 208% |
| | \$1,500 | 18.65 | 169% | 194% |
| | \$3,000 | 18.62 | 163% | 188% |
| 50 | \$600 | 36.44 | 180% | 203% |
| | \$1,500 | 36.17 | 174% | 196% |
| | \$3,000 | 35.78 | 171% | 193% |
| | | Average | 174% | 197% |

Notes:

- Creditor DI: Monthly premium rate per \$1,000 is the average of participating CAFII member products as provided in the survey responses
- Individual DI: Monthly premium rate per \$1,000 is the average of participating Individual Insurer products as provided in the survey responses

5.4 Key Findings – DI Premium Rates (continued)

Male Premium Rate per \$1,000
Creditor DI vs. Individual DI (30-Day Waiting Period)

| Age | Monthly Insured Payment | Creditor DI | Individual DI (Non-Smoker) As % of Creditor DI | Individual DI (Smoker) As % of Creditor DI |
|-----|-------------------------|-------------|---|---|
| 25 | \$600 | 14.30 | 166% | 189% |
| | \$1,500 | 14.28 | 149% | 171% |
| | \$3,000 | 14.26 | 141% | 164% |
| 35 | \$600 | 18.70 | 157% | 179% |
| | \$1,500 | 18.65 | 143% | 165% |
| | \$3,000 | 18.62 | 137% | 159% |
| 50 | \$600 | 36.44 | 185% | 211% |
| | \$1,500 | 36.17 | 179% | 204% |
| | \$3,000 | 35.98 | 175% | 200% |
| | | Average | 159% | 182% |

Notes:

- Creditor DI: Monthly premium rate per \$1,000 is the average of participating CAFII member products as provided in the survey responses
- Individual DI: Monthly premium rate per \$1,000 is the average of participating Individual Insurer products as provided in the survey responses

5.4 Key Findings – DI Premium Rates (continued)

Female Premium Rate per \$1,000
Creditor DI vs. Individual DI (30-Day Waiting Period)

| Age | Monthly Insured Payment | Creditor DI | Individual DI (Non-Smoker) As % of Creditor DI | Individual DI (Smoker) As % of Creditor DI |
|-----|-------------------------|-------------|---|---|
| 25 | \$600 | 14.30 | 212% | 240% |
| | \$1,500 | 14.28 | 195% | 223% |
| | \$3,000 | 14.26 | 187% | 215% |
| 35 | \$600 | 18.70 | 202% | 230% |
| | \$1,500 | 18.65 | 189% | 217% |
| | \$3,000 | 18.62 | 183% | 210% |
| 50 | \$600 | 36.44 | 202% | 228% |
| | \$1,500 | 36.17 | 195% | 222% |
| | \$3,000 | 35.78 | 192% | 219% |
| | | Average | 195% | 223% |

Notes:

- Creditor DI: Monthly premium rate per \$1,000 is the average of participating CAFII member products as provided in the survey responses
- Individual DI: Monthly premium rate per \$1,000 is the average of participating Individual Insurer products as provided in the survey responses

5.4 Key Findings – Bundled Premium Rates

- To protect against multiple risks, consumers often purchase more than one type of insurance coverage under one policy, i.e. “bundled products”
 - Bundled Individual Insurance premium rates were not available in LifeGuide
 - Bundled Creditor Life & CI premium rates were compared to Individual CI stand-alone premium rates for each Key Customer Profile
 - Premium rates for Individual CI are expressed as a percentage of bundled Creditor Insurance premium rates
 - Bundled Creditor Life & CI offers Life or CI benefit, whichever occurs first, while Individual CI doesn’t cover Life coverage
- Compared to Individual CI T20R&C stand-alone products:
 - For Non-Smokers, Bundled Creditor premium rates are lower for Males and Females on average basis; Individual CI premium rates are lower on adjusted average basis
 - For Smokers, Bundled Creditor rates are more competitive for Males and Females, on average and adjusted average basis
- Data was not available to make a similar comparison using Bundled Creditor Life & DI

5.4 Key Findings – Bundled Premium (continued)

**Male Premium Rate per \$1,000
Creditor Life & CI vs. Individual CI T20R&C**

| Age | Insured Amount | Creditor Life & CI | Individual CI T20R&C (Non-Smoker) As % of Creditor Life & CI | Individual CI T20R&C (Smoker) As % of Creditor Life & CI |
|-----|----------------|--------------------|--|--|
| 25 | \$100K | 0.22 | 120% | 146% |
| | \$250K | 0.21 | 105% | 132% |
| | \$500K | 0.18 | 120% | 153% |
| 35 | \$100K | 0.31 | 134% | 239% |
| | \$250K | 0.29 | 127% | 234% |
| | \$500K | 0.29 | 124% | 233% |
| 50 | \$100K | 1.08 | 122% | 270% |
| | \$250K | 1.02 | 125% | 279% |
| | \$500K | 0.97 | 130% | 291% |
| | | Average | 123% | 220% |
| | | Adjusted Average | 75% | 134% |

5.4 Key Findings – Bundled Premium Rates (continued)

**Female Premium Rate per \$1,000
Creditor Life & CI vs. Individual Life & CI T20R&C**

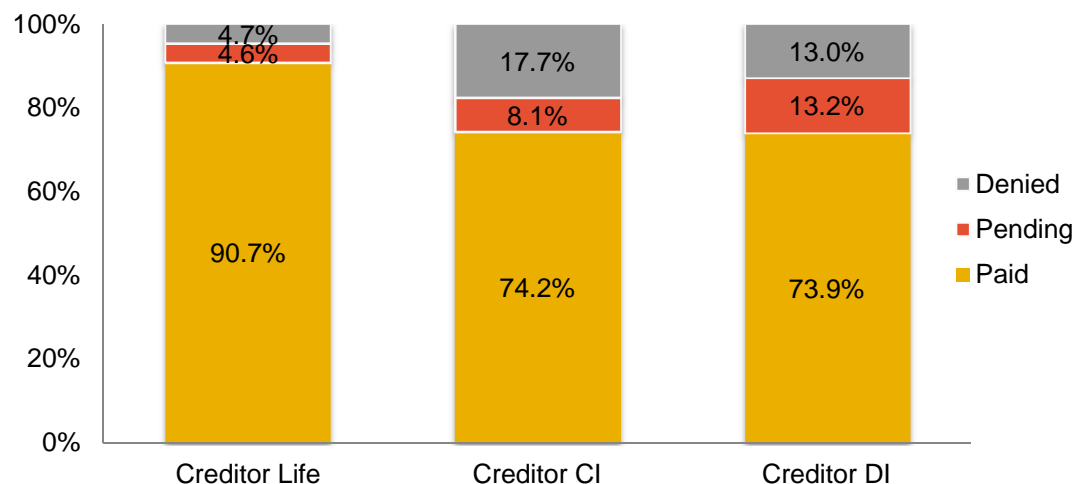
| Age | Insured Amount | Creditor Life & CI | Individual CI T20R&C (Non-Smoker) As % of Creditor Life & CI | Individual CI T20R&C (Smoker) As % of Creditor Life & CI |
|------------------|----------------|--------------------|--|--|
| 25 | \$100K | 0.22 | 121% | 152% |
| | \$250K | 0.20 | 111% | 145% |
| | \$500K | 0.17 | 128% | 170% |
| 35 | \$100K | 0.31 | 138% | 225% |
| | \$250K | 0.29 | 133% | 226% |
| | \$500K | 0.28 | 132% | 226% |
| 50 | \$100K | 1.08 | 103% | 206% |
| | \$250K | 0.99 | 107% | 220% |
| | \$500K | 0.93 | 113% | 231% |
| Average | | | 121% | 200% |
| Adjusted Average | | | 74% | 122% |

5.5 Key Findings – Claims Process

5.5 Key Findings – Claims Process

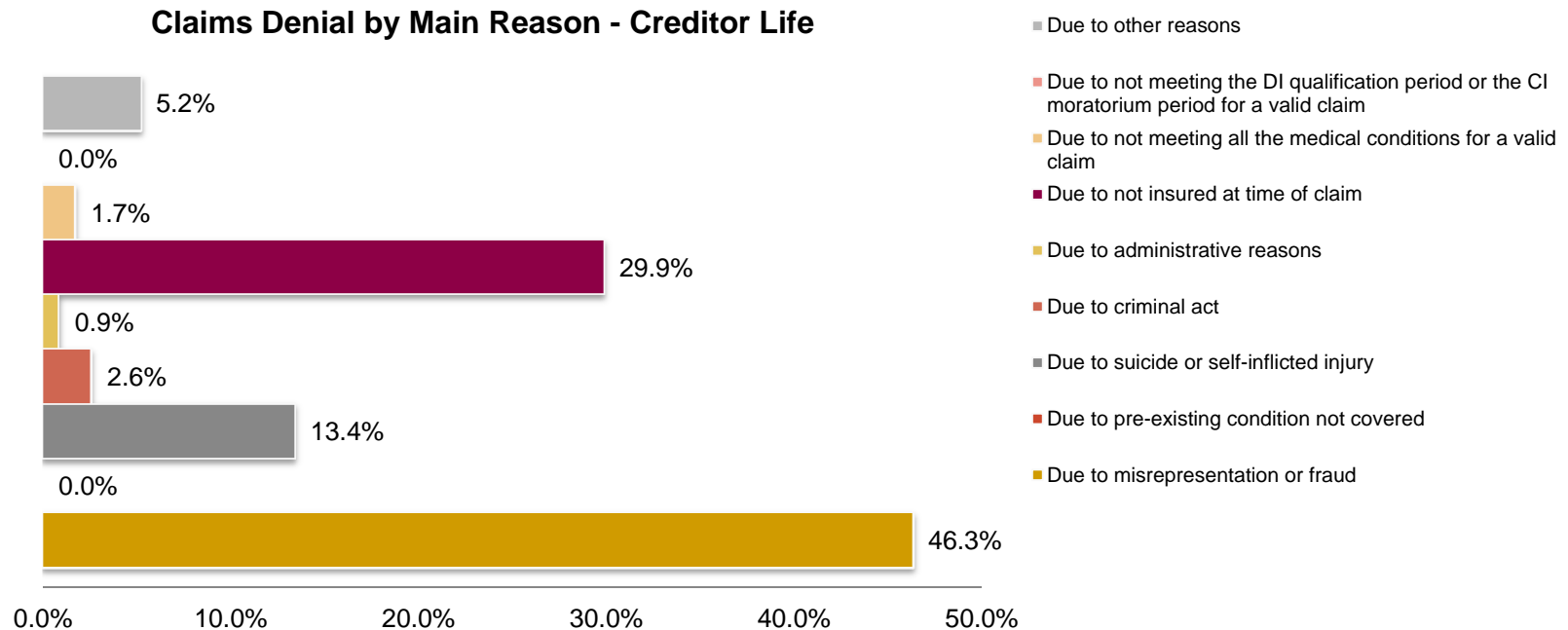
- At the end of 2013, the proportion of submitted claims that were pending or denied for Creditor Life was relatively low compared to the other Creditor Insurance products
- Over 70% of claims were paid by Creditor Insurers
- Due to limited data received from Individual Insurer survey, detailed claims process analysis could not be performed for Individual Insurance products

**Percentage of Submitted Claims
Paid, Pending or Denied – End of 2013**



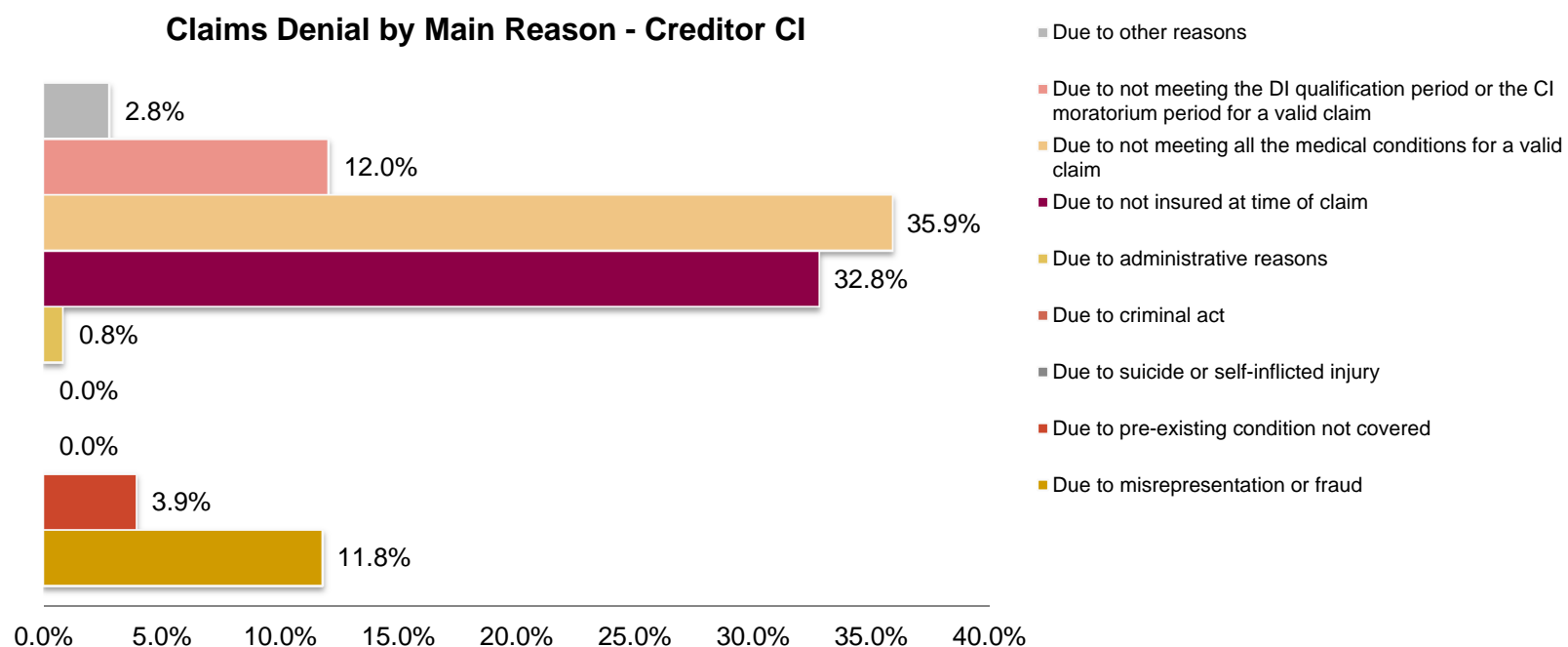
5.5 Key Findings – Life Insurance Claims Process (continued)

- The two main reasons for claims denial under Creditor Life are: misrepresentation or fraud and coverage is not insured at time of claim. The latter is due to no coverage in force at time of claim or the insured is beyond his 70th birthday etc.



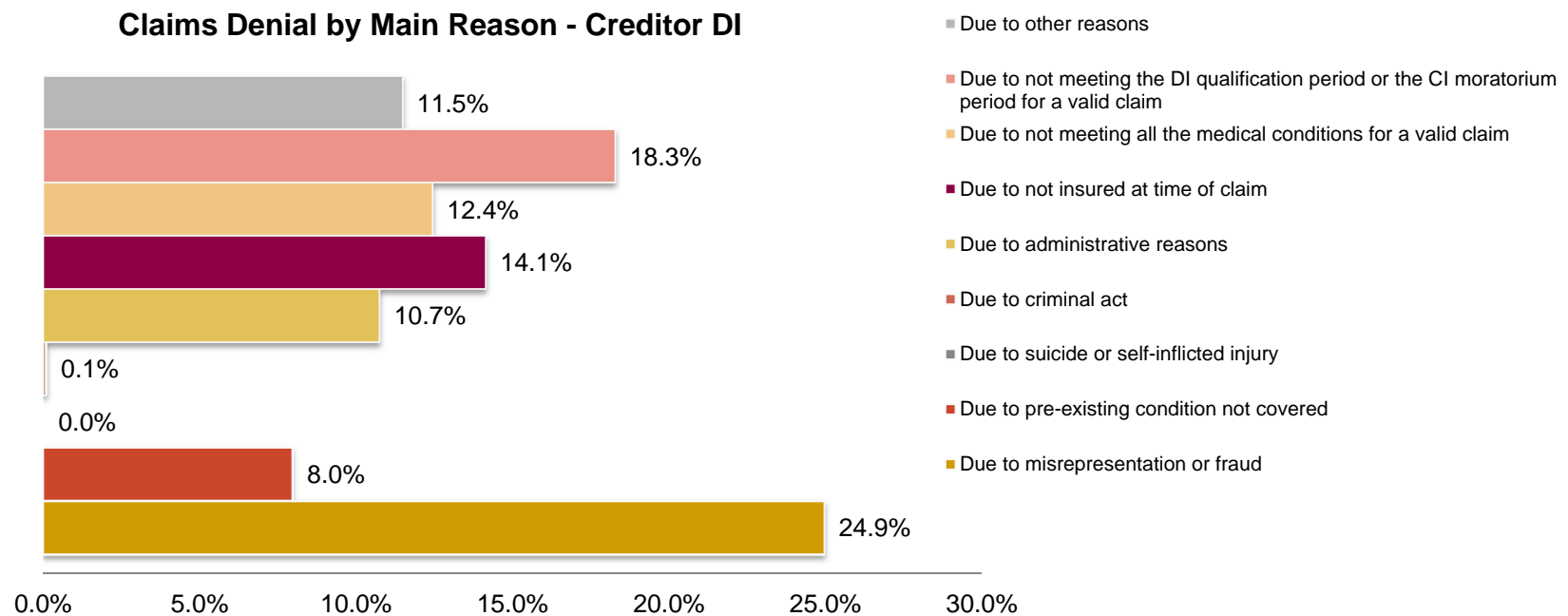
5.5 Key Findings – CI Insurance Claims Process (continued)

- The two main reasons for claims denial for Creditor CI are: illness is not covered and coverage is not insured at time of claim



5.5 Key Findings – DI Insurance Claims Process (continued)

- The two main reasons for claims denial for Creditor DI are: misrepresentation or fraud and coverage does not meet the DI qualification period for a valid claim



6. Conclusions

6. Conclusions

- At year-end 2013, CAFII members had a total number of 4.6 million mortgages in force with a total mortgage origination amount of \$930 billion. Close to a third of the in-force mortgages (\$322 billion) were insured under Creditor Insurance
- At the same date, Individual Insurers (total market) had approximately \$1,375 billion of Term Life insurance in force
- During 2013, CAFII members insured 385,000 of mortgages with a total of \$85 billion of mortgage origination amount; Individual Insurers insured approximately \$166 billion of Term Life insurance
- Consumers have a variety of insurance needs which can be met with Creditor Insurance and/or Individual Insurance. In this report, we have highlighted the differences between the two product offerings
- Creditor Insurance is designed to protect consumers who purchase a mortgage from a financial institution. It is conveniently offered at the time the mortgage is issued
- Individual Insurance offers a broader range of products

6. Conclusions (continued)

- Creditor Insurance is designed to provide basic coverage at an affordable price
 - The coverage for Life and CI reduces overtime, mirroring the mortgage amortization schedule
 - Applications for Creditor Insurance are more likely to be auto-approved and more consumers don't have to go through the more complex and time-consuming underwriting process; the proportion of Creditor applications that were approved (either auto-approved or after Paramedical/Medical underwriting) was higher for Life coverage but very similar to Individual applications for DI and CI
 - The average maximum mortality/morbidity rating without extra premium is slightly higher for Creditor Life and CI products compared to Individual Life and CI products
 - Generally, pricing is in aggregate (for Males & Females and for Smokers & Non-Smokers)
 - Based on the result of our survey, pricing (standard risk class) is lower than Individual insurance, particularly for:
 - Male Smoker purchasing Life and Bundled Life & CI
 - Female Smoker purchasing Life (relative to T10 R&C) and Bundled Life & CI
 - Male and Female Non-Smoker purchasing Life (relative to T20 R&C)

6. Conclusions (continued)

- Individual Insurance products offer a wider range of coverage with more comprehensive features
 - The coverage for Life and CI is level; CI coverage is broader, covering more illnesses
 - Consumers can purchase CI or DI on a stand-alone basis (without Life)
 - Individual Insurance applications with Paramedical or Medical underwriting are more likely to be approved; the proportion of Individual Insurance applications that were approved (either auto-approved or after Paramedical/Medical underwriting) was very similar to Creditors applications for DI and CI
 - Pricing is specific by class of risk (smoking status and gender) and preferred discount is offered; Life and CI premium rates are guaranteed
 - Based on the result of our survey, pricing (standard risk class) is lower than Creditor insurance, particularly for:
 - Female Smoker purchasing Life (relative to T20 R&C)
 - Male and Female Non-Smoker purchasing Life (relative to T10 R&C) and Bundled Life &CI

Appendices

Appendix A

- The following companies participated in the CAFII member survey:
 - Bank of Montreal
 - Bank of Nova Scotia
 - Canadian Imperial Bank of Commerce
 - Desjardins Group
 - National Bank of Canada
 - Royal Bank of Canada
 - Toronto-Dominion Bank

Appendix A (continued)

- The following individual insurers participated in the Individual Insurance survey:
 - Blue Cross Life Insurance Company of Canada
 - BMO Life Insurance Company
 - Desjardins Financial Security Life Assurance Company
 - Equitable Life Insurance Company of Canada
 - Excellence Life Insurance Company
 - Humania Assurance Inc.
 - La Capitale Insurance and Financial Services Inc.
 - RBC Life Insurance Company
 - SSQ, Life Insurance Company Inc.
 - Sun Life Assurance Company of Canada
 - Transamerica Life Canada
 - Union Life, Mutual Assurance Company
 - Wawanesa Life Insurance Company

Appendix B – Detailed Product Comparison

| Product Features | Creditor Life Insurance | Individual Life Term Insurance |
|-------------------------------------|---|---|
| Eligibility | <ul style="list-style-type: none"> Borrower or co-borrower of mortgage loan Minimum issue age is 18 Maximum issue age is mostly 65 (one product offers to age 69) | <ul style="list-style-type: none"> Minimum issue age is mostly around 18 (some products offered from age 0) For T10R&C, the maximum issue age is mostly 70 or 75 For T20R&C, the maximum issue age range is 60 to 70 |
| Insured Amount Limit | <ul style="list-style-type: none"> The maximum insured amount is in the range from \$500,000 to \$1,000,000 | <ul style="list-style-type: none"> The maximum insured amount is more than \$750,000 The minimum insured amount is between \$10,000 and \$100,000 |
| Benefit Level | <ul style="list-style-type: none"> The benefit is the outstanding balance of the mortgage which is declining | <ul style="list-style-type: none"> The individual insurance benefit is level |
| Expiry Date | <ul style="list-style-type: none"> Coverage expires at insured age 70 | <ul style="list-style-type: none"> Commonly, coverage expires at insured age 80 or 85 |
| Underwriting | <ul style="list-style-type: none"> In general, the application will be automatically approved if the insured answered "no" to the health questions in the application Otherwise, underwriting would be required | <ul style="list-style-type: none"> Depends on insured amount, underwriting is often required |
| Mortality / Morbidity Rating | <ul style="list-style-type: none"> Offer standard rates only, most companies accept rating up to 200% without extra premium | <ul style="list-style-type: none"> Without extra premium, companies accept rating up to range from 125% to 400% With extra premium, most companies accept rating up to 300% or 400% |
| Joint Coverage | <ul style="list-style-type: none"> Joint coverage is available, some products have restriction of maximum 2 people Premium discount on joint coverage | <ul style="list-style-type: none"> Available, number of individuals allowed in a policy is generally more than 2 Premium discount |

Appendix B – Detailed Product Comparison (continued)

| Product Features | Creditor Life Insurance | Individual Life Term Insurance |
|-----------------------------------|---|--|
| Premium Rate | <ul style="list-style-type: none"> Premium rates are subject to change Premium rates generally are not gender or smoking status distinct Premium rates generally do not vary by insured amount No policy fee | <ul style="list-style-type: none"> Premium rates (initial and renewal) are guaranteed at issue Premium rates vary by gender, smoking status and underwriting risk class Preferred underwriting is offered for higher insured amounts With policy fee |
| Prior Coverage Recognition | <ul style="list-style-type: none"> People will need to reapply for insurance coverage when refinance or apply for new mortgage to replace an existing insured mortgage. In case the new application is declined, the prior coverage will be granted on the new or refinanced mortgage Premium rates based on the age at new application | <ul style="list-style-type: none"> To increase existing Individual Insurance coverage, re-underwriting would be required |
| Cancellation (by Insurer) | <ul style="list-style-type: none"> In general, coverage can be cancelled by the bank or the insurer | <ul style="list-style-type: none"> Coverage is non-cancellable |
| Convertibility | <ul style="list-style-type: none"> Not available | <ul style="list-style-type: none"> Coverage can be converted to Permanent Life Insurance products up to age 65-70 Conversion is not subject to underwriting |
| Additional Benefits | <ul style="list-style-type: none"> Additional benefits include CI, DI, job loss, and Accidental Death Benefit are available for purchase | <ul style="list-style-type: none"> Variety of other benefits are offered, i.e. CI, DI, Waiver of Premium, Accidental Death Benefit, Child Rider at additional cost |

Appendix B – Detailed Product Comparison (continued)

| Product Features | Creditor CI Insurance | Individual CI Insurance |
|-----------------------------|--|---|
| Eligibility | <ul style="list-style-type: none"> • Borrower or co-borrower of mortgage loan • Minimum issue age is 18 • Maximum issue age is 55 or 64 | <ul style="list-style-type: none"> • Minimum issue age is mostly around 18 (some products offered from age 0) • For CI10R&C, the maximum issue age is in the range from 55 to 65 • For T20R&C, the maximum issue age is 55 or 60 |
| Insured Amount Limit | <ul style="list-style-type: none"> • The maximum insured amount is generally in the range from \$300,000 to \$1,000,000 | <ul style="list-style-type: none"> • The maximum insured amount for most products is \$2,000,000 • The minimum insured amount is mostly \$10,000 or \$25,000 |
| Illness Covered | <ul style="list-style-type: none"> • 3 to 4 illnesses, all products cover Cancer, Stoke and Heart Attack | <ul style="list-style-type: none"> • Majority of products cover more than 20 illnesses |
| Benefit Amount | <ul style="list-style-type: none"> • The benefit is the outstanding balance of the mortgage which is declining | <ul style="list-style-type: none"> • The individual insurance benefit is level |
| Expiry Date | <ul style="list-style-type: none"> • Coverage expires at insured age 65 or 70 | <ul style="list-style-type: none"> • Generally, coverage expires at insured age 75 |
| Survival Period | <ul style="list-style-type: none"> • For most of the CI products, there is no minimum survival period after diagnosis of a valid critical illness claim | <ul style="list-style-type: none"> • Survival period is generally 30 days |
| Underwriting | <ul style="list-style-type: none"> • In general, for insured amount no more than \$250,000, the application will be automatically approved if the insured answered "no" to the health questions in the application • Otherwise, underwriting would be required | <ul style="list-style-type: none"> • Depends on insured amount, underwriting is often required |

Appendix B – Detailed Product Comparison (continued)

| Product Features | Creditor CI Insurance | Individual CI Insurance |
|-------------------------------------|---|--|
| Mortality / Morbidity Rating | <ul style="list-style-type: none"> Offer standard rates only, most companies accept rating up to 150% or 200% without extra premium | <ul style="list-style-type: none"> Without extra premium, most companies do not accept rating With extra premium, companies accept rating up to range from 150% to 400% |
| Premium Rate | <ul style="list-style-type: none"> Premium rates are subject to change Premium rates generally are not gender or smoking status distinct Premium rates generally do not vary by insured amount No policy fee | <ul style="list-style-type: none"> Premium rates (initial and renewal) are guaranteed at issue Premium rates vary by gender, smoking status and underwriting risk class Premium rates vary by insured amount With policy fee |
| Prior Coverage Recognition | <ul style="list-style-type: none"> People will need to reapply for insurance coverage when refinance or apply for new mortgage to replace an existing insured mortgage. In case the new application is declined, the prior coverage will be granted on the new or refinanced mortgage Premium rates based on the age at new application | <ul style="list-style-type: none"> To increase existing Individual Insurance coverage, re-underwriting would be required |
| Cancellation (by Insurer) | <ul style="list-style-type: none"> In general, coverage can be cancelled by the bank or the insurer | <ul style="list-style-type: none"> Coverage is non-cancellable |
| Stand-alone | <ul style="list-style-type: none"> Purchase of Credit Life insurance is often required | <ul style="list-style-type: none"> Majority of the products are offered on a stand-alone basis |

Appendix B – Detailed Product Comparison (continued)

| Product Features | Creditor CI Insurance | Individual CI Insurance |
|----------------------------|---|--|
| Convertibility | <ul style="list-style-type: none"> Not available | <ul style="list-style-type: none"> CI T10R&C or T20R&C coverage can be converted to longer term products if offered by the insurer, i.e. Term to age 75, Term to age 100 up to age 60 - 70 Conversion is not subject to underwriting |
| Additional Benefits | <ul style="list-style-type: none"> Majority of the products do not offer additional benefits | <ul style="list-style-type: none"> Additional benefits such as early detection benefit and best doctor services are commonly included in the CI products (no additional cost) offered by Individual Insurers while return of premium is available for purchase Waiver of Premium, Accidental Death Benefit, and Child CI Rider are also available for purchase |

Appendix B – Detailed Product Comparison (continued)

| Product Features | Creditor DI Insurance | Individual DI Insurance |
|---------------------------------|--|---|
| Eligibility | <ul style="list-style-type: none"> • Borrower or co-borrower of mortgage loan • Minimum issue age is 18 • Maximum issue age is 65 • Applicants need to meet certain working conditions | <ul style="list-style-type: none"> • Minimum issue age is 16 to 18 • Maximum issue age is generally 60 or 65 • Generally, applicants need to meet certain working conditions |
| Insured Amount Limit | <ul style="list-style-type: none"> • The maximum insured amount is \$3,000 to \$7,500 per month | <ul style="list-style-type: none"> • Depends on occupational class, the maximum insured amount range from \$3,000 to \$25,000 per month |
| Benefit Amount | <ul style="list-style-type: none"> • The benefit is the principal and interest portions of the mortgage payments plus the insurance premium | <ul style="list-style-type: none"> • The benefit is level and selected at issue |
| Benefit Payment Period | <ul style="list-style-type: none"> • Generally, the benefit period is 24 months | <ul style="list-style-type: none"> • 24 months, 60 months and coverage to age 65 or 70 are generally offered by Individual Insurers. The longer the benefit period, the higher the premium rate |
| Definition of Disability | <ul style="list-style-type: none"> • Own Occupation | <ul style="list-style-type: none"> • Own Occupation for the first 24 months. After 24 months, the definition changes to Any Occupation |
| Waiting Period | <ul style="list-style-type: none"> • Majority of the products have waiting period of 60 days (one product has 30 days) | <ul style="list-style-type: none"> • Most companies provide various waiting period options, i.e. 14, 30, 60, 90 or 120. The shorter the waiting period, the higher the premium rate • Waiting period has to be elected at issue |

Appendix B – Detailed Product Comparison (continued)

| Product Features | Creditor DI Insurance | Individual DI Insurance |
|-----------------------------------|--|---|
| Underwriting | <ul style="list-style-type: none"> • In general, the application will be automatically approved if the insured answered "no" to the health questions in the application • Otherwise, underwriting would be required | <ul style="list-style-type: none"> • Depends on insured amount, underwriting is often required |
| Premium Rate | <ul style="list-style-type: none"> • Premium rates are subject to change • Premium rates generally are not gender or smoking status distinct • Premium rates generally do not vary by insured amount • No policy fee | <ul style="list-style-type: none"> • Premium rates are subject to change • Premium rates vary by gender, smoking status and occupational class • Premium rates vary by insured amount • With policy fee |
| Prior Coverage Recognition | <ul style="list-style-type: none"> • People will need to reapply for insurance coverage when refinance or apply for new mortgage to replace an existing insured mortgage. In case the new application is declined, the prior coverage will be granted on the new or refinanced mortgage • Premium rates is based on the age at new application | <ul style="list-style-type: none"> • To increase existing Individual Insurance coverage, re-underwriting would be required |
| Cancellation (by Insurer) | <ul style="list-style-type: none"> • In general, coverage can be cancelled by the bank or the insurer | <ul style="list-style-type: none"> • Some products may be cancelled by the insurer |
| Stand-alone | <ul style="list-style-type: none"> • Purchase of Credit Life insurance is often required | <ul style="list-style-type: none"> • Majority of the products are offered on a stand-alone basis |
| Additional Benefits | <ul style="list-style-type: none"> • Job loss insurance may be available | <ul style="list-style-type: none"> • Recovery Benefits, Death Benefit, Waiver of Premium, and Return of Premium rider are commonly available at extra cost |